



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

**Date:** 5/9/2007

**GAIN Report Number:** ID7016

## Indonesia

### Cotton and Products

### Cotton Annual

### 2007

**Approved by:**

Fred R. Kessel  
U.S. Embassy, Jakarta

**Prepared by:**

Sugiarti Meylinah

---

**Report Highlights:**

Pressure on the Indonesian textile industry continues, but higher prices for synthetic fibers will encourage an increase of cotton imports to 2.24 million bales in MY 2006/07. This export dependent industry is feeling competitive pressure from countries that offer lower-priced alternatives. However, demand continues for Indonesian cotton yarn, fabric, and garments.

---

Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Jakarta [ID1]  
[ID]

## TABLE OF CONTENTS

<b>I. SITUATION AND OUTLOOK .....</b>	<b>3</b>
PRODUCTION .....	3
CONSUMPTION .....	3
TRADE .....	3
STOCKS .....	4
POLICY .....	4
<b>II. STATISTICAL TABLES .....</b>	<b>5</b>
TABLE 1. PSD COTTON (HS CODE 5201,5202, AND 5203) IN METRIC TONS .....	5
TABLE 2. PSD COTTON (HS CODE 5201, 5202, AND 5203) IN BALES.....	6
TABLE 3. COTTON IMPORT TRADE MATRIX (MY 2005 – 2006) .....	7
TABLE 4. COTTON EXPORT TRADE MATRIX (MY 2005 – 2006) .....	8
TABLE 5. COTTON YARN IMPORT TRADE MATRIX (CY 2005 – 2006).....	9
TABLE 6. COTTON YARN EXPORT TRADE MATRIX (CY 2005 – 2006) .....	10
TABLE 7. COTTON FABRIC IMPORT TRADE MATRIX (CY 2005 – 2006) .....	11
TABLE 8. COTTON FABRIC EXPORT TRADE MATRIX (CY 2005 – 2006).....	12
TABLE 9. TEXTILE PRODUCTION IN 2005 – 2006.....	13
TABLE 10. TEXTILE AND TEXTILE PRODUCT EXPORTS IN 2005 - 2006.....	13

## I. SITUATION AND OUTLOOK

### PRODUCTION

MY 2006/07 Indonesian cotton production is estimated to decline to 30,000 bales due to prolonged dryness and farmer preference to grow alternative crops with higher yields and profits, and shorter growing periods. Cotton yield remains low at 500 kg/ha. No significant effort has been made to increase the yield of cotton or to reintroduce the use of Bt cotton since commercial production was halted in 2002. South Sulawesi, Central Java, and East Java are the major Indonesian cotton producing areas.

### CONSUMPTION

With a total capacity of 7.8 million spindles and 90,000 rotors, Indonesian textile mills are running at around 71 percent of capacity. Around 35 percent of total spinning machinery and around 66 percent of total weaving machinery are more than 20 years of age. Antiquated machines tend to use power inefficiently and operate at lower productivity levels than newer machines in competing countries. This situation makes it difficult for the textile industry to obtain loans from banks. The increasing price of raw materials, such as cotton, polyester, and viscose, in the international market greatly affects the price competitiveness of the finished product since the price of raw material accounts for about 60 percent of total production costs. Around 70 percent of total energy demands from the textile industry is fulfilled by the National Electricity Company (PLN), therefore every policy imposed by PLN impacts textile industry efficiency. Currently, PLN imposes a premium tariff during the peak hours of 05:00 PM to 10:00 PM which increases production costs by 10-15 percent. The 126 percent average fuel price increase at the end of 2005 added another burden to the industry. In addition, the Indonesian textile industry employs 1.8 million workers with higher wages and lower productivity than other Asian textile exporting countries. The shrinking domestic market due to fierce competition from lower-priced imported products has lowered the total sales of Indonesian textiles and textile products.

Given these constraints, MY 2006/07 Indonesian cotton consumption is estimated to remain stable at approximately 2.175 million bales.

### TRADE

Indonesian cotton production fulfills only 0.5 percent of local demand from the textile industry, the balance being imported. Indonesian total imports of cotton in MY 2006/07 are expected to slightly increase to 2.24 million bales mostly due to more competitive cotton prices in the international market compared to the price of synthetic fibers such as polyester and viscose. Indonesian cotton consumption is forecast to further increase to 2.3 million bales in MY 2007/08, as the Indonesian textile industry will prepare to face the increasing demand from Indonesian presidential election campaign in 2009. The more than 20 political parties in Indonesia will distribute free t-shirts all over the country to promote their political agendas, which will increase demand for cotton garments.

In MY 2005/06, the United States was the major supplier of cotton to Indonesia with approximately 45 percent market share, followed by Australia (22 percent) and Brazil (9 percent). The prolonged dryness in Australia that tightened the exportable supplies of cotton resulted in an increase of U.S. cotton exports to Indonesia. However, imports from India are growing. The industry is looking at Indian cotton as a substitute because of the lower price compared U.S. cotton, but with competitive quality. Indian cotton has been found to have a higher amount of contaminants though.

## STOCKS

Cotton millers and spinners usually maintain 2 – 2.5 months of U.S. cotton inventories due to the longer distance and time required to ship cotton from the United States. Where as, the industry only holds stocks of Australian cotton for 2-3 weeks because of its closer proximity. With the decrease in the percentage of cotton imported from Australia, ending stocks are forecasted at 388,000 bales in MY 2006/07.

## POLICY

The Indonesian government has taken several steps to reduce illegal transshipment of textiles and textile products from Indonesia to the United States and European Union Countries. GOI introduced a regulation that reduces the total number of agencies authorized to issue certificates of origin from 193 agencies to 14 agencies. They are:

- ? Trade Agency Offices in North Sumatera, Riau, Jakarta, West Java, Central Java, East Java, Bali, Yogyakarta.
- ? Trade Agency Offices in Surakarta Municipality and Riau Islands Regency
- ? Non Official Agencies in Batam, Cakung Bonded Zone, Tanjung Priok Bonded Zone, and Marunda Bonded Zone.

On September 26, 2006, a Memorandum of Understanding was signed in Washington, DC by the U.S. Trade Representative and the Indonesian Ministry of Trade to reduce illegal transshipments to United States.

In addition, the Indonesian government has amended its laws to impose longer periods of incarceration and higher fines for smugglers. Any individual convicted of smuggling is liable to be sentenced to 5-20 years in prison and a fine of IDR 5-10 billion fine (US\$ 562,000 – 1,124,000). Indonesian law also requires that all imported textiles and textile products must now be inspected at the entry point.

On January 8, 2007, the Indonesian government issued a regulation that eliminates the 10 percent value added tax (VAT) imposed on certain primary agricultural products, including the 10 percent VAT on cottonseed, combed and uncombed cotton, and carded and not carded cotton. This policy will improve industry cash flow in the short term, which will lead to increased cotton imports in the long term.

On March 30, 2007, GOI issued a regulation to provide assistance to the textile industry, millers, and spinners who intend to update their machines and equipment. Companies will be reimbursed 11 percent of the cost of the equipment up to IDR 5 billion. As older machines are replaced, it is expected that the industry's cost efficiency and price competitiveness of finished products will increase.

## II. STATISTICAL TABLES

TABLE 1. PSD COTTON (HS CODE 5201,5202, AND 5203) IN METRIC TONS

PSD Table									
Country	Indonesia								
Commodity	Cotton						(HECTARES) (MT)		
	2005 Revised			2006 Estimate			2007 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		08/2005	08/2005		08/2006	08/2006		08/2007	08/2007
Area Planted	0	0	0	0	0	0	0	0	0
Area Harvested	10	10	10	10	10	9	0	0	9
Beginning Stocks	82300	76422	82301	79470	79035	79470	76640	77293	84478
Production	6967	6967	6967	6967	6750	6532	0	0	6532
Imports	479000	480087	478998	478998	480958	487707	0	0	500771
MY Imports from U.S.	0	246902	202921	0	249950	217727	0	0	225347
Total Supply	568267	563476	568266	565436	566742	573709	76640	77293	591781
Exports	4355	4572	4355	4355	4572	4790	0	0	5225
Use	473557	470072	473555	473555	475079	473555	0	0	490102
Loss	10886	10015	10886	10886	10015	10886	0	0	11540
Total Dom. Cons.	484443	480087	484442	484442	485095	484442	0	0	501642
Ending Stocks	79469	79035	79470	76640	77293	84478	0	0	84913
Total Distribution	568267	563694	568266	565436	566960	573709	0	0	591781
Stock to Use %	17	17	17	16	16	18	0	0	17
Yield	151690	151696	151696	151696	146955	158016	0	0	158016

TABLE 2. PSD COTTON (HS CODE 5201, 5202, AND 5203) IN BALES

PSD Table									
Country	Indonesia								
Commodity	Cotton						(HECTARES)1000 480 lb. Bales(PERCENT)(KG/HA)		
	2005 Revised			2006 Estimate			2007 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		08/2005	08/2005		08/2006	08/2006		08/2007	08/2007
Area Planted	0	0	0	0	0	0	0	0	0
Area Harvested	10	10	10	10	10	9	0	0	9
Beginning Stocks	378	351	378	365	363	365	352	355	388
Production	32	32	32	32	31	30	0	0	30
Imports	2200	2205	2200	2200	2209	2240	0	0	2300
MY Imports from U.S.	0	1134	932	0	1148	1000	0	0	1035
Total Supply	2610	2588	2610	2597	2603	2635	352	355	2718
Exports	20	21	20	20	21	22	0	0	24
Use	2175	2159	2175	2175	2182	2175	0	0	2251
Loss	50	46	50	50	46	50	0	0	53
Total Dom. Cons.	2225	2205	2225	2225	2228	2225	0	0	2304
Ending Stocks	365	363	365	352	355	388	0	0	390
Total Distribution	2610	2589	2610	2597	2604	2635	0	0	2718
Stock to Use %	16.6287 02	16.6513 8	16.6287	16.0364 5	16.1143 9	17.6604 5	0	0	17.1428 6
Yield	697	697	697	697	675	726	0	0	726

TABLE 3. COTTON IMPORT TRADE MATRIX (MY 2005 – 2006)

Import Trade Matrix			
Country	Indonesia		
Commodity	Cotton		
Time Period	Aug-Jul	Units:	1,000 MT
Imports for:	2005		2006*
U.S.	145	U.S.	35
Others		Others	
Australia	96	Australia	31
Brazil	41	India	14
India	29	Brazil	8
South Africa	12	South Africa	7
Tanzania	8	Burkina Faso	4
Syria	7	Uzbekistan	4
Ivory Coast	7	Zimbabwe	4
Mali	7	Tanzania	3
Burkina Faso	7	Mozambique	3
Benin	6	Mali	2
Indonesia	6	Indonesia	2
Pakistan	6	Ivory Coast	2
Cameroon	6	Togo	2
Central African Rep.	6	Syria	2
Zambia	5	Mexico	2
Mexico	5	Central African Rep.	2
Uganda	4	Pakistan	1
Togo	3	Ghana	1
Mozambique	3	Cameroon	1
Uzbekistan	3	Switzerland	1
Total for Others	267		96
Others not Listed	26		30
Grand Total	438		161

Source: Global Trade Statistics.

\*Note: For MY 2006, only Aug – Nov 2006.

TABLE 4. COTTON EXPORT TRADE MATRIX (MY 2005 – 2006)

Export Trade Matrix			
Country	Indonesia		
Commodity	Cotton		
Time Period	Aug-Jul	Units:	1,000 MT
Exports for:	2005		2006*
U.S.	1	U.S.	0
Others		Others	
Hong Kong	8	Hong Kong	4
Taiwan	7	Taiwan	3
China	5	Japan	1
Japan	3	Vietnam	1
Vietnam	2	India	1
India	2	China	1
Philippines	1		
Thailand	1		
Italy	1		
Belgium	1		
Total for Others	31		11
Others not Listed	1		2
Grand Total	33		13

Source: Global Trade Statistics.

\*Note: For MY 2006, only Aug – Nov 2006.

TABLE 5. COTTON YARN IMPORT TRADE MATRIX (CY 2005 – 2006)

Import Trade Matrix			
Country	Indonesia		
Commodity	Yarn		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2005		2006*
U.S.	1	U.S.	0
Others		Others	
Pakistan	10	Pakistan	5
Indonesia	5	Indonesia	5
China	4	Taiwan	4
Taiwan	2	China	3
India	2	India	1
Total for Others	23		18
Others not Listed	0		3
Grand Total	24		21

Source: Global Trade Statistics.

\*Note: For CY 2006, only Jan – Nov 2006.

TABLE 6. COTTON YARN EXPORT TRADE MATRIX (CY 2005 – 2006)

Export Trade Matrix			
Country	Indonesia		
Commodity	Yarn		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2005		2006*
U.S.	5	U.S.	7
Others		Others	
Hong Kong	27	Hong Kong	15
Japan	15	Japan	12
South Korea	10	South Korea	11
China	6	China	8
Sri Lanka	6	Malaysia	7
Taiwan	4	Sri Lanka	6
Malaysia	3	Taiwan	3
Philippines	3	Egypt	2
Singapore	3	Macau	2
Germany	2	Philippines	2
Australia	1	Vietnam	2
Vietnam	1	Singapore	2
Total for Others	81		72
Others not Listed	12		14
Grand Total	98		93

Source: Global Trade Statistics.

\* Note: For CY 2006, only Jan – Nov 2006.

TABLE 7. COTTON FABRIC IMPORT TRADE MATRIX (CY 2005 – 2006)

Import Trade Matrix			
Country	Indonesia		
Commodity	Fabric		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2005		2006
U.S.	3	U.S.	6
Others		Others	
Taiwan	18	Taiwan	25
Korea Rep.	17	Korea Rep.	16
Singapore	13	Malaysia	12
Hong Kong	11	Japan	12
China	11	Hong Kong	11
Malaysia	11	China	10
India	7	Singapore	9
Japan	7	Indonesia	8
Indonesia	5	Pakistan	6
France	3	India	4
Italy	3	Thailand	4
United Kingdom	2	Vietnam	3
Thailand	2	South Africa	2
Pakistan	2	Philippine	2
Spain	2	Italy	2
Germany	1	Germany	1
Total for Others	115		127
Others not Listed	5		6
Grand Total	123		139

Source: Central Bureau of Statistics (BPS).

TABLE 8. COTTON FABRIC EXPORT TRADE MATRIX (CY 2005 – 2006)

Export Trade Matrix			
Country	Indonesia		
Commodity	Fabric		
Time Period	Jan-Dec	Units:	1,000 MT
Exports for:	2005		2006
U.S.	17	U.S.	15
Others		Others	
United Kingdom	30	United Kingdom	34
Korea Rep.	28	Italy	28
Vietnam	27	Hong Kong	27
Philippine	25	Netherlands	26
United Arab Emirates	23	Saudi Arabia	23
Sri Lanka	22	Vietnam	19
Hong Kong	21	Korea Rep.	19
Saudi Arabia	21	Sri Lanka	18
Netherlands	19	France	16
China	18	United Arab Emirates	15
Mexico	17	Kuwait	11
India	16	Myanmar	11
Italy	16	China	10
Sweden	12	Cambodia	10
France	11	Spain	10
Japan	10	Sweden	10
Thailand	9	Singapore	9
Malaysia	8	Swaziland	8
South Africa	8	Taiwan	8
Spain	8	Philippine	8
Sudan	8	Turkey	7
Germany	7	Bangladesh	7
El Salvador	7	India	6
Turkey	7	Japan	6
Guatemala	7	Malaysia	6
Total for Others	385		352
Others not Listed	88		87
Grand Total	490		454

Source: Central Bureau of Statistics (BPS).

**TABLE 9. TEXTILE PRODUCTION IN 2005 – 2006**

Value of Textile Production in 2005 and 2006		
(in Billion IDR)		
Products	2005	2006 (Jan - Jun)
MANMADE FIBERS	6,830	1,427
YARNS	27,372	9,509
FABRICS	39,072	9,010
GARMENTS	47,571	28,726
OTHER TEXTILE PRODUCTS	3,882	1,768
TOTAL	124,727	50,440

Source: Directorate of Textile Industry, Directorate General of Metal Machine, Textile and Multi various Industry, Ministry of Industry.

**TABLE 10. TEXTILE AND TEXTILE PRODUCT EXPORTS IN 2005 - 2006**

Value of Textile and Textile Products Exports in 2005 and 2006			
(in 1,000 USD)			
No.	PRODUCTS	2005	2006 (Jan - Jun)
1.	FIBERS	243,323	122,283
2.	YARNS	1,621,890	815,089
3.	FABRICS	1,536,643	772,248
4.	GARMENTS	4,899,423	2,462,231
5.	OTHER TEXTILE	301,597	151,569
	TOTAL	8,602,876	4,323,421

Source: Directorate of Textile Industry, Directorate General of Metal Machine, Textile and Multi various Industry, Ministry of Industry.